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FISCAL IMPACT STATEMENT

LS 7386

BILL NUMBER: HB 1604

NOTE PREPARED: Apr 6, 2009

BILL AMENDED: Apr 6, 2009

SUBJECT: Local Taxes.

FIRST AUTHOR: Rep. GiaQuinta

FIRST SPONSOR: Sen. Wyss

BILL STATUS: CR Adopted - 2nd House

FUNDS AFFECTED: ☒ **GENERAL**
☒ **DEDICATED**
FEDERAL

IMPACT: State & Local

Summary of Legislation: (Amended) *Alcoholic Beverage Tax Increase:* The bill increases all alcoholic beverage excise taxes by 100% and distributes the revenue from these increases to cities and towns based on population. It requires the revenue distributed to be used for economic development, including job creation or retention, infrastructure, and employment-related training. It requires the revenue received by Indianapolis to be transferred to the Marion County CIB. It requires 50% of the alcoholic beverage tax revenue received by Fort Wayne to be transferred to the Allen County-Fort Wayne CIB.

Marion County CIB Funding: The bill permits the Marion County City-County Council to increase: (1) the county admissions tax from 6% to 10%; (2) the county food and beverage tax from 2% to 2.25%; and (3) the county innkeepers tax from 9% to 10%. It dedicates the revenue from these increases to the Marion County Capital Improvement Board of Managers (Marion County CIB). The bill allows for an addition to the Marion County professional sports development area to include a hotel complex located within 0.5 miles from the Indiana Convention Center. It provides for the deposit of the state sales taxes from the additional area in a new Marion County CIB sports and convention facilities operating fund and restricts the use of the new operating fund to paying usual and customary operating expenses that have a positive economic impact with respect to capital improvements operated by the Marion County CIB. It eliminates the capture of state sales taxes in the tax area addition not later than December 31, 2040. It also makes an appropriation for the distribution of these food and beverage taxes, innkeepers taxes, and state sales taxes in the additional Marion County professional sports development area.

Fort Wayne-Allen County Convention and Tourism Authority: The bill changes the name of the Fort Wayne-Allen County Convention and Tourism Authority to the Allen County-Fort Wayne Capital Improvement Board of Managers (Allen County-Fort Wayne CIB). It provides that 50% of any food and

beverage tax revenue in Allen County that is received after December 31, 2009, and is not needed for debt payments is to be transferred to the Allen County-Fort Wayne CIB and may be used only for projects commenced after December 31, 2008, and not for operational expenses. It repeals superseded provisions of the Allen County food and beverage tax. The bill provides that the Allen County-Fort Wayne CIB must deposit the amount transferred into a reserve account, where it must be held for 12 months. It allows the Allen County-Fort Wayne CIB to transfer interest on the reserve account and amounts on deposit for more than 12 months to the board's capital improvement fund. It provides that, after June 30, 2009, Allen County-Fort Wayne CIB must approve any food and beverage tax pledge for bonds, loans, or leases. It requires the executive director of the Allen County Memorial Coliseum to file an annual report of operations with the Allen County- Fort Wayne CIB. It also requires the executive manager of the Allen County- Fort Wayne CIB to file an annual report of operations with the Allen County- Fort Wayne CIB.

Vanderburgh County Innkeeper's Tax: The bill provides that the part of the Vanderburgh County innkeeper's tax rate that is dedicated to pay the operating expenses of a convention center is reduced from 2% to 1% after December 31, 2014 (rather than after December 31, 2009, under current law). It also provides for a corresponding delay in the increase in the part of the Vanderburgh County innkeeper's tax rate that is deposited in the tourism capital improvement fund.

Vanderburgh County Food and Beverage Tax: The bill specifies that if the Vanderburgh County Council adopts a resolution providing that the Vanderburgh County food and beverage tax should be continued to finance the acquisition, construction, and equipping of an arena and other facilities that serve or support the arena activities, any excess food and beverage tax revenue that is not needed to pay any bonds, leases, or other obligations for a convention center shall be transferred to the fiscal officer of Evansville for deposit in an Evansville arena fund. It provides that money in the Evansville arena fund shall be used for financing the acquisition, construction, and equipping of an arena and other facilities that serve or support the arena activities. It specifies that if the Vanderburgh County Council adopts a resolution providing that the Vanderburgh County food and beverage tax should be continued to finance the acquisition, construction, and equipping of an arena and other facilities that serve or support the arena activities, the food and beverage tax: (1) does not terminate after the last of the bonds issued to finance improvements to the Vanderburgh County auditorium or auditorium renovations, and the last of any bonds issued to refund those bonds, have been completely paid; and (2) continues until the last of the bonds issued to finance the acquisition, construction, and equipping of the Evansville arena and other facilities that serve or support the arena activities, and the last of any bonds issued to refund those bonds, have been completely paid. It also repeals provisions specifying that the amounts received from the Vanderburgh County food and beverage tax shall be used to pay bonds issued to finance the construction of an airport terminal.

Monroe County Food and Beverage Tax: The bill permits Monroe County to impose a county food and beverage tax of 1% of the gross retail income received by a food and beverage merchant. It also establishes a local advisory commission to assist and coordinate efforts of the county and city fiscal bodies regarding the utilization of food and beverage tax revenue.

Morgan County Innkeeper's Tax: The bill allows Morgan County to establish a 5% innkeeper's tax to fund parks and recreation projects, including providing funding for matching grants.

Martinsville Food and Beverage Tax: The bill eliminates the expiration date in the Martinsville food and beverage tax by which the city of Martinsville may initiate projects funded by food and beverage tax revenues. It also permits Martinsville to fund city parks with the Martinsville food and beverage tax.

City/Town Securitization of Parking Meter Revenue: The bill permits cities and towns to use parking meter revenue for costs associated with the acquisition, construction, renovation, operation, and maintenance of public infrastructure and improvements and securitize parking system revenues in the city or town.

Effective Date: (Amended) Upon Passage; July 1, 2009; January 1, 2010.

Explanation of State Expenditures: *Department of State Revenue (DOR)-* The bill allows the county the option to collect the tax or for DOR to collect and process revenue collections. DOR administers, audits, and collects local taxes at approximately \$0.54 per \$100 of revenue. DOR could process the proposed tax within their existing level of resources.

Explanation of State Revenues: (Revised) *Marion County PSDA Expansion:* The bill expands the Marion County Professional Sports Development Area (PSDA) to include the Marriott Place hotel complex on West Street next to Victory Field. The PSDA expansion could potentially transfer \$570,000 in FY 2010, \$3.2 M in FY 2011, and \$6.0 M annually thereafter from the state General Fund to the Marion County CIB. The expansion of the PSDA must terminate by December 31, 2040.

The FY 2010 and FY 2011 amounts are partial-year amounts based on opening dates for hotels and a restaurant at Marriott Place. Marriott Place will consist of a restaurant and four hotels, including the J. W. Marriott convention hotel. The restaurant and three smaller hotels are expected to open in March 2010, and the J. W. Marriott convention hotel is expected to open in February 2011. The expansion of the PSDA will apply only to Sales Tax generated at these facilities.

Currently, the Marion County PSDA includes Conseco Fieldhouse, the Indiana Convention Center, Lucas Oil Stadium, Victory Field, and the Colts' practice facility. The current PSDA is allowed to capture revenue from the state sales tax, state income tax, county option income tax, and county food and beverage tax. The captured revenue is utilized for debt payments relating to Conseco Fieldhouse, Lucas Oil Stadium, and the convention center. Current statute limits to \$16 M annually the state sales tax and state income tax revenue that may be captured by the existing PSDA. In FY 2008, state sales tax and state income tax revenue captured by the PSDA totaled almost \$15.1 M.

Explanation of Local Expenditures: *Fort Wayne-Allen County Convention and Tourism Authority:* This bill changes the name of the Fort Wayne-Allen County Convention and Tourism Authority to the Allen County-Fort Wayne Capital Improvement Board. The bill also requires the executive manager of the CIB to file an annual report of operations.

Use of Vanderburgh County Food and Beverage Tax: If the Vanderburgh County fiscal body were to adopt a resolution to continue the VCFBT for an arena project, the county treasurer would determine if any tax revenue were left over from bonds in existence on January 1, 2009, or earlier. If revenue was not committed to those prior bonds, the treasurer would transfer the excess revenue to the Evansville city controller. The city controller would place VCFBT revenue into the municipal arena fund. If the tax were continued for the arena, Evansville would be able to issue bonds or enter into leases for the project. These bonds could not exceed a term of 30 years.

If the county treasurer were to certify to the Treasurer of State that all bonds for improvements on the county auditorium had been paid in full, amounts received from the tax from the Treasurer of State would be placed into the municipal arena fund.

Evansville could also issue bonds in lieu of arena bonding for any special taxing district, agency, department, instrumentality, or law under which bonds may be issued, leases entered, and obligations incurred. Bonds for these purposes would have a term ending no later than 30 years after the first February 1 following the estimated date of the arena completion.

Explanation of Local Revenues: (Revised) *Alcoholic Beverage Tax Increase:* The bill doubles the tax rates on alcoholic beverages and distributes 100% of the revenue from the tax rate increases to cities and towns based on population. The rate increases are estimated to generate \$38.5 M in FY 2010 (11 months of collections) and \$42.0 M per year thereafter. The bill limits cities and towns to using the revenue from the rate increases for economic development purposes. However, revenue distributed to Indianapolis must be transferred to the Marion County CIB, and 50% of the revenue distributed to Fort Wayne must be transferred to the Allen County-Fort Wayne CIB.

The current tax rate and new tax rates pursuant to the bill are summarized in the table below.

Beverage	Current rate	New rate
Beer & Hard Cider	\$0.115	\$0.23
Liquor (and Wine over 21% alcohol)	\$2.68	\$5.36
Wine (less than 21% alcohol), Mixed beverages (5% or less alcohol)	\$0.47	\$0.94

(Revised) *Marion County CIB Funding:* The total estimated revenue impact of the bill to the Marion County CIB is summarized in the table below. The revenue from the sources listed in the table is to be distributed to the Marion County CIB and used only for operating expenses of capital improvements that the CIB operates. The revenue can not be used to pay any current or future obligations owed by the CIB to the Indiana Stadium and Convention Building Authority or any state agency under a lease or another agreement; or for the construction or equipping of a capital improvement that is used for a professional sporting event or convention.

Sources (in millions)	FY 2010	FY 2011	FY 2012
State Taxes:			
Alcohol Beverage Tax Increase	\$7.5	\$8.2	\$8.2
Marion County PSDA Expansion	0.6	3.2	6.0
Marion County Taxes			
County Admissions Tax Increase	4.3	4.4	4.5
Food & Beverage Tax Increase	4.2	4.8	5.1
Innkeepers Tax Increase	3.7	4.2	4.5
Total	\$20.3	\$24.7	\$28.3

Alcoholic Beverage Taxes: See discussion above under *Alcoholic Beverage Tax Increase*.

Marion County PSDA: See *Explanation of State Revenues* for discussion of this change.

Marion County Taxes: The bill allows Marion County to increase the innkeepers tax, the food and beverage tax, and the county admissions tax beginning July 1, 2009. The rate increases must expire on January 1, 2041. Revenue from the rate increases in the first year of collection would depend on the effective date of the ordinance enacting the rate increases. The estimates on the innkeepers tax and food and beverage tax assume 11 months of collections in FY 2010. Actual revenue from the innkeeper's tax and food and beverage tax increases could be higher than estimated above to the extent that new business is attracted by new hotels in the downtown area and the convention center expansion.

(1) The bill allows the innkeepers tax to be increased from 9% to 10%. The current 9% tax generated about \$36.2 M in FY 2008.

(2) The bill allows the food and beverage tax to be increased from 2% to 2.25%. The current 2% tax generated about \$36.8 M in FY 2008.

(3) The bill allows the county admissions tax to be increased from 6% to 10%. (Note: The tax is currently imposed on the price of admission to any event held in Lucas Oil Stadium, the Convention Center, Victory Field, or Conseco Fieldhouse.) The current 6% tax generated about \$6.5 M in FY 2008.

(Revised) Allen County Food and Beverage Tax Reserve Account: This bill transfers 50% of the excess Allen County Food and Beverage Tax that is not needed to pay obligations (bond, loan, or lease) to the Allen County-Fort Wayne Capital Improvement Board. The board will then deposit these funds into a reserve account. Funds in the reserve account may not be withdrawn or transferred during the year they are received, except to make transfers to the county for obligations. The bill limits the CIB to using the excess revenue for a project initiated after December 31, 2008, and prohibits the CIB from using the excess revenue to pay operational expenses for any facilities of the municipality. The bill also enables the Board to transfer interest from the reserve account and amounts on deposit for more than 12 months to the Capital Improvement Fund. Beginning in FY 2010, the Board must approve any Food and Beverage Tax pledge for bonds, loans, or leases. Revenue from the Food and Beverage Tax totaled about \$5.5 M in FY 2008.

Vanderburgh County Innkeeper's Tax: This provision would delay, for five years, the revenue equivalent to a 1% rate that the tourism capital improvement fund was scheduled to receive after December 31, 2009. The bill would also delay the reduction (from a 2% rate to a 1% rate) of the amount deposited into the Convention Center Operating Fund (CCOF). Under current law, the amount of innkeeper's revenue deposited in the CCOF would be reduced by 1% after December 31, 2009. Under the bill, the reduction would be postponed until after December 31, 2014.

Vanderburgh County collected about \$3.3 M in innkeeper's taxes during FY 2008. The current tax rate is 8%. A 1 percent rate would equate to approximately \$408,000 of FY 2008 revenue.

Use of Vanderburgh County Food and Beverage Tax: Revenue from the VCFBT would continue to be collected if the conditions specified in the bill were fulfilled. VCFBT revenue is currently paying for bonds to cover costs of renovation and improvements to the county auditorium. The following table illustrates a recent collection history of the tax.

Vanderburgh County Food & Beverage Tax Revenues	
Fiscal Year	Tax Revenue
FY 2008	\$3.7 M
FY 2007	\$3.6 M
FY 2006	\$3.6 M
FY 2005	\$3.3 M
FY 2004	\$3.1 M
Five-Year Average	\$3.5 M

VCFBT revenues are currently being used to pay for bonding for the improvements to the county auditorium (renamed the Centre), with approximately \$23.735 M remaining in principal payments. The current debt service schedule for the Centre indicates payment will take nine and one-half additional state fiscal years to complete. The annual bond payment is approximate to the average revenue from the tax over the last five state fiscal years.

(Revised) *Monroe County Food and Beverage Tax*: Assuming an ordinance effective date of upon passage, a 1% food and beverage tax in Monroe County could yield approximately \$0.9 M in CY 2009, \$2.4 M in CY 2010 and \$2.5 M in CY 2011. However, the actual revenue amounts would depend on the effective date of the ordinance.

It is estimated that 87.9% of all Monroe County food and beverage establishments are located within Bloomington. Therefore, if 87.9% of the revenue generated from the proposed countywide tax went to Bloomington, the city could see an estimated \$2.13 M in CY 2010 (assuming a full year of collections) and \$2.2 M in CY 2011. The remaining revenue would be retained by the county.

(Revised) *Morgan County Innkeeper's Tax*: It is estimated the tax would generate \$21,900 in CY 2009, \$89,600 in CY 2010, and \$94,200 in CY 2011. Tax revenues in the first year of collection would depend on the effective date of a county ordinance. The estimated amount for CY 2009 assumes that collection would begin, at earliest, in September 2009.

(Revised) *Martinsville Food and Beverage Tax*: The bill eliminates the 2015 deadline to begin projects funded by the Martinsville food and beverage tax and allows tax revenue to be used for sanitary sewer system and city park projects. These changes could affect the future use of the tax revenue on authorized projects. Current statute limits use of the revenue to city hall renovation, police or fire station construction, sanitary sewer or wastewater treatment facility improvement, storm water drainage systems improvement, and other projects involving the city's water system or protecting the city's well fields.

(Revised) *Securitization of Parking Meters*: The bill permits cities and towns to use parking meter revenue for costs associated with the acquisition, construction, renovation, operation, and maintenance of public infrastructure and improvements and other authorized purposes. The bill also defines a parking meter as a public facility for purposes of current statute relating to public-private agreements allowing cities and towns to securitize parking meter revenue. The fiscal impact of this provision is indeterminable.

State Agencies Affected: DOR; Treasurer of State. DLGF, State Budget Agency, State Budget Committee.

Local Agencies Affected: Allen County; City of Fort Wayne; Fort Wayne-Allen County Convention and Tourism Authority; Vanderburgh County, City of Evansville; Marion County/Indianapolis; Morgan County; Monroe County.

Information Sources: *Indiana Handbook of Taxes, Revenues, and Appropriations*; City of Evansville Controller's Office, Indiana Economic Digest: www.indianaeconomicdigest.net.

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